

COMMISSIONERS OF ST. MICHAELS
ST. MICHAELS, MARYLAND
FINANCIAL STATEMENTS
JUNE 30, 2012

COMMISSIONERS OF ST. MICHAELS
TABLE OF CONTENTS
JUNE 30, 2012

INDEPENDENT AUDITOR'S REPORT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

BASIC FINANCIAL STATEMENTS

Government – Wide Statement of Net Assets Exhibit A

Government – Wide Statement of Activities 2012 and 2011 Exhibit B

FUND FINANCIAL STATEMENTS

Balance Sheet – Governmental Fund Exhibit C

Statement of Revenues, Expenditures and Changes in
Fund Balance – Governmental Fund Exhibit D

Reconciliation of the Statement of Revenues, Expenditures and Changes in
Fund Balance of the Governmental Fund to the Statement of Activities Exhibit E

Statement of Revenues, Expenditures and Changes in Fund Balance – Budget
and Actual – General Fund Exhibit F

Balance Sheet – Enterprise Funds Exhibit G

Statement of Revenues, Expenditures and Changes in Fund Net Assets – Enterprise Funds Exhibit H

Statement of Cash Flows – Enterprise Funds Exhibit I

Notes to Basic Financial Statements Exhibit J

SUPPLEMENTAL INFORMATION

Analysis of Revenue – Budget and Actual – All Fund Types Schedule A

Analysis of Expenditures/Expenses – Budget and Actual – All Fund Types Schedule B

Statement of Revenues, Expenses and Changes in Fund Net Assets – Budget and Actual –
Proprietary Fund Schedule C

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING
STANDARDS**



Robert B. Lank, C.P.A.
Terrence Johnson, C.P.A.
Richard L. Tull, C.P.A.

Gary W. Tuttle, C.P.A.
John E. Cullen, Jr., C.P.A.
Robert B. Lank, Jr., C.P.A.

LANK, JOHNSON & TULL

Certified Public Accountants

P.O. Box 418 • 521 N. Market St. Ext. • Seaford, Delaware 19973
P.O. Box 253 • 268 Milford-Harrington Highway • Milford, Delaware 19963
1475 S. Governors Avenue • Dover, Delaware 19904

Seaford Office
(302) 629-9543
Fax (302) 629-3501

Milford Office
(302) 422-3308
Fax (302) 422-4782

Dover Office
(302) 736-2618
Fax (302) 736-5522

INDEPENDENT AUDITOR'S REPORT

TO THE COMMISSIONERS TOWN OF ST. MICHAELS, MARYLAND

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of the Town of St. Michaels, as of and for the year ended June 30, 2012, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities and each major fund of the Town of St. Michaels, as of June 30, 2012, and the changes in financial position and cash flows, where applicable, and the budgetary comparisons for the general and enterprise funds, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 19, 2012, on our consideration of the Town of St. Michaels' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Members

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS • PRIVATE COMPANIES PRACTICE SECTION
DELAWARE SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of St. Michaels' financial statements as a whole. The supplemental information is presented for purposes of additional analysis and is not a required part of the financial statements. The supplemental information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Lark, Johnson & Tull

Seaford, Delaware
October 19, 2012

Commissioners of St. Michaels
Management's Discussion and Analysis
June 30, 2012

This section of The Commissioners of St. Michaels' annual financial report presents the discussion and analysis of the Town's financial performance during the fiscal year that ended on June 30, 2012. Please read it in conjunction with the Town's financial statements, which follow this section.

BASIC FINANCIAL STATEMENTS

This report provides both long-term and short-term information about the Town's overall financial status. The fund financial statements focus on the individual parts of the Town government, reporting the operations of the Town in more detail than the government-wide statements. Both perspectives (government-wide and individual fund) allow the user to address relevant questions, broaden the basis for comparison (year to year or government to government) and enhance the Town's accountability.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements report information about the Town as a whole. The statement of net assets includes all of the government's assets and liabilities, reported using the full accrual basis of accounting. The statement of activities accounts for all of the current year's revenues and expenses, regardless of when cash is received or paid.

The two government-wide statements report the Town's net assets and how they have changed. Net assets, the difference between the Town's assets and liabilities, are one way to measure the financial health of the Town. Over time, increases or decreases in the Town's net assets are an indicator of whether its financial health is improving or deteriorating. To assess the overall health of the Town, one needs to consider other non-financial factors such as changes in the Town's property tax base and condition of the Town's infrastructure.

The government-wide financial statements of the Town are divided into two categories:

Governmental Activities—Most of the Town's basic services are included here, such as police and other public safety services, parks and recreation, public works, and general administration. Property and state-shared taxes, charges for services, and state grants finance most of these activities.

Business-type Activities—The Town's water operations are reported here. Fees are charged to water customers to help cover the costs of providing the services.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the Town's most significant funds. The focus is on major funds rather than fund types.

The Town has two types of funds:

Governmental Fund - The General Fund is the Town's only governmental fund, which focuses on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Town's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information is provided on the governmental fund statements, or schedules immediately following the governmental fund statements, that explain the relationship (or differences) between them.

Commissioners of St. Michaels
Management's Discussion and Analysis
June 30, 2012

Proprietary Funds - Services for which the Town charges customers a fee are generally reported in proprietary funds. These funds, like the government-wide statements, provide both long-term and short-term financial information. The Town's enterprise funds (one type of proprietary fund) are the same as its business-type activities, but the fund financial statements provide more detail and additional information, such as cash flows. The Town utilizes enterprise funds to account for its water operations.

FINANCIAL ANALYSIS OF THE TOWN AS A WHOLE

The Town's combined net assets increased by 2% from 2011 to 2012. (See table below) General fund net assets increased by 2%, while the business-type fund increased by 1%. The changes are primarily the result of the Town being able to meet operational costs as well as to fund capital improvements with current revenues, prior year reserves and investment earnings, without incurring any substantial, new debt.

Commissioners of St. Michaels
Net Assets
(in millions)

	Governmental		Business-Type		Total		Total Percentage
	2012	2011	2012	2011	2012	2011	Change
Current and Other Assets	12.63	12.02	0.19	0.18	12.82	12.20	5%
Capital Assets	8.75	8.84	3.16	3.28	11.91	12.12	-2%
Total Assets	21.38	20.86	3.35	3.46	24.73	24.32	2%
Long Term Debt	-	-	1.81	1.91	1.81	1.91	-5%
Other Liabilities	0.31	0.30	0.02	0.04	0.33	0.34	-3%
Total Liabilities	0.31	0.30	1.83	1.95	2.14	2.25	-5%
Net Assets							
Capital Assets Net of Debt	8.75	8.84	1.35	1.37	10.10	10.21	-1%
Restricted	10.33	10.18	0.03	0.03	10.36	10.21	1%
Unrestricted	1.99	1.54	0.14	0.11	2.13	1.65	29%
Total Net Assets	21.07	20.56	1.52	1.51	22.59	22.07	2%

The Town's total revenues (excluding transfers) decreased by 4% to \$3.04 million (See table below). Revenue from business-type activities decreased by 2%, to \$0.55 million. General Governmental revenues decreased by 4% to \$2.49 million, which is attributable to a property tax rate reduction approved by the Commissioners.

The total cost of all programs and services decreased by 16%, to \$2.52 million. Costs of business-type activities decreased by 13%, to \$0.54 million, which is attributed to lower personnel, maintenance and capital expenses. The cost of governmental activities decreased by 17% to \$1.98 million, which is attributed to Miles Point settlement costs in 2011. The expenses in the table below are shown net of fees, charges and grants.

Commissioners of St. Michaels
Management's Discussion and Analysis
June 30, 2012

Commissioners of St. Michaels
Change in Net Assets
(in millions)

	Governmental		Business-Type		Total		Total Percentage
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>Change</u>
Program Revenue							
Charges for Services	-	-	0.55	0.56	0.55	0.56	-2%
General Revenue							
Taxes	2.40	2.48	-	-	2.40	2.48	-3%
Investment Income	0.09	0.12	-	-	0.09	0.12	-25%
Total Revenue	2.49	2.60	0.55	0.56	3.04	3.16	-4%
Program Expenses - Net							
General	0.48	0.80	-	-	0.48	0.80	-40%
Police	0.80	0.96	-	-	0.80	0.96	-17%
Public Works	0.70	0.39	-	-	0.70	0.39	79%
Debt Service	-	0.23	-	-	-	0.23	-100%
Water	-	-	0.54	0.62	0.54	0.62	-13%
Total Expenses	1.98	2.38	0.54	0.62	2.52	3.00	-16%
Excess (Deficiency)	0.51	0.22	0.01	(0.06)	0.52	0.16	225%
Transfers	-	-	-	-	-	-	
Change in Net Assets	0.51	0.22	0.01	(0.06)	0.52	0.16	225%
Net Assets Beginning	20.56	20.34	1.51	1.57	22.07	21.91	1%
Net Assets Ending	21.07	20.56	1.52	1.51	22.59	22.07	2%

GENERAL FUND BUDGETARY HIGHLIGHTS (For purposes of the MD&A presentation, the budgeted amounts refer to general operational expenditures, and capital funds net of prior year funding).

The original budget was amended once during the current fiscal year to realign revenue and expenses and to provide for the payoff of the Maryland State Retirement unfunded actuarial liability in the amount of \$212,654.

Actual revenues of \$3,222,938 were over budgeted revenues by \$192,485. This favorable variance is primarily due to state shared revenues and miscellaneous other revenues.

Actual expenditures in the amount of \$2,318,039 came in \$326,414 under budgeted amounts. This favorable variance is due to lower personnel costs and capital projects deferred to future years.

WATER FUND BUDGETARY HIGHLIGHTS

Actual revenue of \$553,799 exceeded budgeted revenue by \$2,764. Expenditures came in \$826 under budgeted amounts. Overall, the water fund had a favorable budget variance of \$3,590.

Commissioners of St. Michaels
Management's Discussion and Analysis
June 30, 2012

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2012 the Town had \$11.91 million invested in capital assets, including police equipment, park and recreation facilities, buildings, land, vehicles, and water system improvements. This amount represents a net decrease (additions, deductions, and depreciation) of \$0.21 million, or 2% less than last year.

Commissioners of St. Michaels
Capital Assets Net of Depreciation
(in millions)

	Governmental		Business-Type		Total	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Land and Improvements	2.04	2.04	-	-	2.04	2.04
Buildings	1.00	1.03	-	-	1.00	1.03
Equipment	0.12	0.12	-	-	0.12	0.12
Improvements	5.45	5.55	-	-	5.45	5.55
Vehicles	0.03	0.05	-	-	0.03	0.05
Water	-	-	3.16	3.28	3.16	3.28
Construction in Progress	0.11	0.05	-	-	0.11	0.05
Total Capital Assets	8.75	8.84	3.16	3.28	11.91	12.12

Note 6 of the Notes to the Basic Financial Statements gives further details of the Town's capital asset activity.

Debt

At year-end, the Town had \$1.81 million in bonds and notes outstanding versus \$1.91 million last year, a decrease of \$.10 million or 5% under last year.

Commissioners of St. Michaels
Debt
(in millions)

	Governmental		Business-Type		Total	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
USDA-Water Bonds	-	-	0.58	0.63	0.58	0.63
Maryland CDA-Water Tower	-	-	0.24	0.25	0.24	0.25
Maryland Department of Environment – Arsenic Removal	-	-	0.99	1.03	0.99	1.03
Total Debt	-	-	1.81	1.91	1.81	1.91

Note 7 of the Notes to the Basic Financial Statements gives further details of the Town's debt activity.

Commissioners of St. Michaels
Management's Discussion and Analysis
June 30, 2012

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The economic climate remains relatively unchanged from the latter half of 2008. Fixed costs associated with long-term infrastructure projects cannot be reduced while the revenues from investments and taxes are projected to remain at the low levels set in FY 2010. The State's reduction to local governments in the Highway User revenues, State Aid for Police Protection grants also continue. These funding reductions continue to be exacerbated by an interest rate of less than one percent. These losses required the Commissioners to take the following approach in balancing the budget for the Town. The Commissioners have:

1. Reviewed and reduced expenditures not essential to the core operations of the town;
2. reviewed and considered the services currently provided to citizens;
3. reduced town debt in each of the past two fiscal years;
4. considered utilizing funding from prior years' reserves.

In an effort to reduce debt payments owed by the Town, the Commissioners amended the FY2011 budget by paying off the balance of the 2006 Public Improvement Bond early. The Commissioners transferred the funds to pay off the debt from the Electric Utility Proceeds, reducing the fund balance by \$4,575,594. This debt retirement then allowed the Commissioners to reduce the tax rate in FY2012 by \$.06/\$100, to \$.58/\$100. In an effort to further reduce town debt, the Commissioners amended the FY 2012 budget, paying off the Maryland State Retirement unfunded actuarial liability in the amount of \$212,654. This payoff was funded through a combination of an unanticipated increase in State Income Tax and a decrease in personnel costs. The Commissioners were able to reduce the tax rate in FY 2013 by another \$.06/\$100, to \$.52/\$100, for a total reduction of 12 cents per \$100 of assessed value in the past two years. This reduction in tax rate coupled with the State's real property reassessment will result in a decrease in annual property tax revenue of approximately \$148,960 in FY 2013, a decrease of \$ 461,639 since FY 2011. These reductions in revenue are offset by a reduction in the debt payment required by the 2006 Public Improvement Bond, which was paid in full in 2011, the payoff of the State Retirement unfunded actuarial liability, and a decrease in personnel costs..

Also, during FY 2012, in a cost cutting effort, both the Public Works and Administrative Departments are operating with one less employee, for a total decrease since FY 2010 of 2 people in each department.

The Commissioners also implemented a new refuse collection policy in FY2011 that includes curbside recycling and takes refuse removal to one day a week. This policy has reduced the amount of refuse being hauled to the landfill by approximately 50% and has freed up the three public works crew members one additional day per week.

Legal fees for FY 2012 remained low, however with the revisions to the State mandated ethics law, as well as a few other legal issues, it is anticipated that legal fees will increase slightly in FY 2013.

It is important to note that the funds received from the sale of the Town's electric distribution system may not be used to offset any general shortfall of revenue. The purchase price paid by Choptank Electric Cooperative, Inc. for the Town's electric distribution system was \$8.2 million, paid to the Town in 2006, and \$400,000 to be paid annually for ten years with zero stated interest. All net revenues from the sale of the system are restricted by the Town Charter, which states:

The funds (from the sale of the system) thus transferred to the Town's general fund shall be segregated and such funds, together with all earnings thereon, shall be used solely for such capital improvements by the Town as deemed appropriate by the Town Commissioners from time-to-time. (See Charter of the Town of St. Michaels, §C-62.1, emphasis and explanation added.)

There are also several impending multi-year impacts to the Town's finances related to the Water Department. The St. Michaels well and distribution system serves not only the Town of St. Michaels, but also the unincorporated county communities of Rio Vista and Bentley Hay. In the next decade, it is projected that the system may need:

- a new well to provide adequate future water service and backup of current water supplies;

Commissioners of St. Michaels
Management's Discussion and Analysis
June 30, 2012

- a new water storage tower;
- inspection and updating of the distribution lines; and
- inspection and updating of the current water storage towers.

In addition to the above costs, problems continue with the maintenance of the arsenic removal plants. The assessment of the corrective actions that will be needed to maintain the system after the expiration of the maintenance contract in 2012 is an unanticipated expense that will necessitate a continued budget increase in FY 2012 and beyond. The Town has received a low interest loan of \$32,260 and "Loan forgiveness" of \$225,750 from the Maryland Department of the Environment to investigate the problems and make modifications and corrections to the Arsenic Removal System

The necessary upgrades to the infrastructure of the Water System as well as the institution of an arsenic maintenance fund in anticipation of the need for services in 2013 will require an increase in water rates in the near future.

A Community Development Block Grant made by the Town in 1985 to Associated Investors, a Maryland general partnership, came due to the Town in August of 2010. As of this writing (October 31, 2013), Associated Investors has failed to meet the repayment requirements on the \$375,130 outstanding balance of the grant. However, the property is under contract by with an anticipated settlement date in the Spring of 2013, at which time the loan will be paid off and re-loaned to the purchaser. The new purchaser is to demolish the existing building and construct 40 restricted income housing units. As long as the property remains as such, the loan will not have to be repaid.

Although progress is hampered by the loss of revenue, the Commissioners continue to pursue the revitalization of the Commercial District. A broad scale revitalization effort began in 2001 with the designation of the area as a Designated Neighborhood in the State of Maryland's Neighborhood Business Development Program. As detailed in the Community Legacy Plan of 2008, the renovation of Muskrat Park, the construction of the St. Michaels Nature Trail and the long-range plans for the improvement of the Fremont Street Corridor all further the Commissioners' efforts to revitalize the commercial core of the Town and to enhance the quality of life for the Town's residents and visitors alike. The multi-year 5.5 million-dollar street rehabilitation project is in Phase 5-5 of the five-phase plan to rehabilitate and reconstruct 23 of the Town's streets.

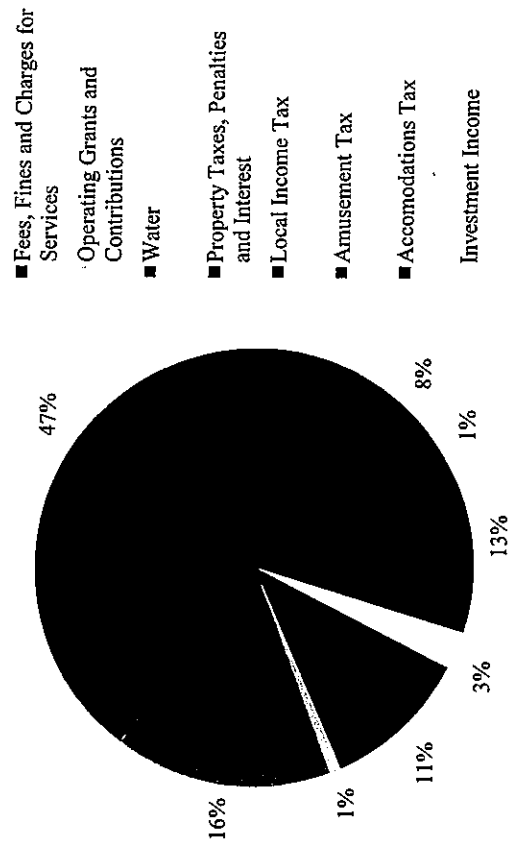
Although the Town struggles with lower property values and state shared revenues, The Commissioners have successfully reduced costs and have lowered the property tax rate by \$.12 in the past two years.

FINANCIAL CONTACT

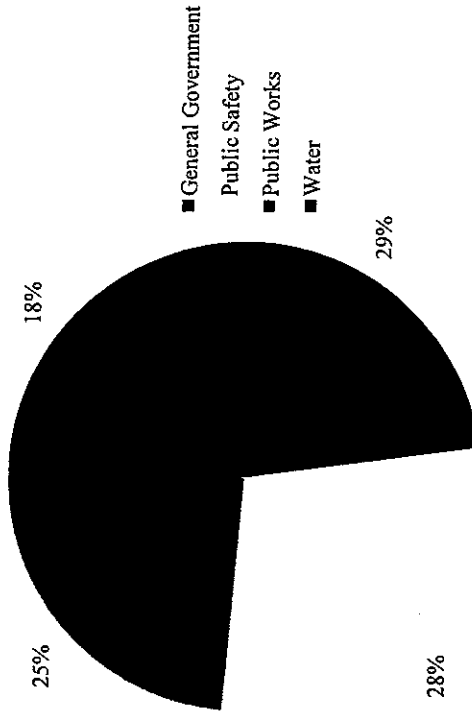
The Town's financial statements are designed to present users (citizens, taxpayers, customers, and creditors) with a general overview of the Town's finances and to demonstrate the Town's accountability. If you have questions about the report or need additional financial information, please contact the Town's management at P.O. Box 206, St. Michaels, Maryland 21663-0206.

COMMISSIONERS OF ST. MICHAELS
MANAGEMENT'S DISCUSSION AND ANALYSIS
TOTAL REVENUE AND EXPENSES
GOVERNMENT-WIDE
JUNE 30, 2012

Total Revenues



Total Expenses



**COMMISSIONERS OF ST. MICHAELS
GOVERNMENT-WIDE STATEMENT OF NET ASSETS
JUNE 30, 2012**

EXHIBIT A

ASSETS	Governmental Activities	Business-Type Activities	Total
Cash	\$ 183,705	\$ -	\$ 183,705
Accounts Receivable	216,829	156,982	373,811
Investments	9,862,301	34,855	9,897,156
Accounts Receivable - Parking Spaces	211,600	-	211,600
Note Receivable - Choptank Electric Cooperative, Inc.	1,780,729	-	1,780,729
Note Receivable - Block Grant	375,130	-	375,130
Capital Assets:			
Land	2,090,532	-	2,090,532
Buildings	1,286,733	-	1,286,733
Equipment	432,294	948,051	1,380,345
Improvements	6,102,765	3,133,081	9,235,846
Vehicles	349,029	78,206	427,235
Accumulated Depreciation	<u>(1,512,468)</u>	<u>(995,257)</u>	<u>(2,507,725)</u>
Total Assets	<u>21,379,179</u>	<u>3,355,918</u>	<u>24,735,097</u>
LIABILITIES			
Accounts Payable	105,035	15,881	120,916
Deferred Revenue	204,100	-	204,100
Non-Current Liabilities:			
Due within one year	-	94,578	94,578
Due in more than one year	<u>-</u>	<u>1,720,217</u>	<u>1,720,217</u>
Total Liabilities	<u>309,135</u>	<u>1,830,676</u>	<u>2,139,811</u>
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	8,748,885	1,349,286	10,098,171
Restricted	10,332,182	34,855	10,367,037
Unrestricted	<u>1,988,977</u>	<u>141,101</u>	<u>2,130,078</u>
Total Net Assets	<u>\$ 21,070,044</u>	<u>\$ 1,525,242</u>	<u>\$ 22,595,286</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

COMMISSIONERS OF ST. MICHAELS
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012

EXHIBIT B
PAGE 1

	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets		
	Expenses	Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities
Program Activities						
Governmental Activities						
General Government	\$ 846,657	\$ 367,375	\$ 1,769	\$ -	\$ (477,513)	\$ -
Public Safety	837,446	3,970	30,263	-	(803,213)	-
Public Works	721,549	-	-	12,730	(708,819)	-
Total Governmental Activities	2,405,652	371,345	32,032	12,730	(1,989,545)	-
Business-Type Activities						
Water	537,756	553,763	-	-	-	16,007
Total Government	\$ 2,943,408	\$ 925,108	\$ 32,032	\$ 12,730	(1,989,545)	16,007

General Revenues:

Property Taxes, Penalties and Interest	1,620,301	-	1,620,301
Local Income Tax	266,519	-	266,519
Amusement Tax	54,587	-	54,587
Highway Use Tax	20,767	-	20,767
Accommodations Tax	434,279	-	434,279
Investment Income/(Loss)	94,252	36	94,288
Transfer In/(Out)	2,160	(2,160)	-
Total General Revenues	2,492,865	(2,124)	2,490,741
Change in Net Assets	503,320	13,883	517,203
Net Assets-Beginning	20,566,724	1,511,359	22,078,083
Net Assets-Ending	\$ 21,070,044	\$ 1,525,242	\$ 22,595,286

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

**COMMISSIONERS OF ST. MICHAELS
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011**

**EXHIBIT B
PAGE 2**

	<u>Program Revenues</u>			<u>Net (Expenses) Revenues and Changes in Net Assets</u>		
	<u>Expenses</u>	<u>Fees, Fines and Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
<u>Program Activities</u>						
<u>Governmental Activities</u>						
General Government	\$ 1,134,979	\$ 339,368	\$ 1,742	\$ -	\$ (793,869)	\$ -
Public Safety	987,799	1,380	30,263	-	(956,156)	-
Public Works	577,656	-	-	184,052	(393,604)	-
Debt Service	232,259	-	-	-	(232,259)	-
<u>Total Governmental Activities</u>	<u>2,932,693</u>	<u>340,748</u>	<u>32,005</u>	<u>184,052</u>	<u>(2,375,888)</u>	<u>-</u>
<u>Business-Type Activities</u>						
Water	617,009	565,322	-	-	(51,687)	(51,687)
<u>Total Government</u>	<u>\$ 3,549,702</u>	<u>\$ 906,070</u>	<u>\$ 32,005</u>	<u>\$ 184,052</u>	<u>(2,375,888)</u>	<u>(2,427,575)</u>
<u>General Revenues:</u>						
Property Taxes, Penalties and Interest					1,883,628	-
Local Income Tax					117,761	-
Amusement Tax					53,261	-
Highway Use Tax					7,038	-
Accommodations Tax					416,730	-
Investment Income/(Loss)					119,708	45
Transfer In/(Out)					1,847	(1,847)
<u>Total General Revenues</u>					<u>2,599,973</u>	<u>(1,802)</u>
Change in Net Assets					224,085	(53,489)
Net Assets-Beginning					20,342,639	1,564,848
Net Assets-Ending					<u>\$ 20,566,724</u>	<u>\$ 1,511,359</u>
						<u>\$ 22,078,083</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

**COMMISSIONERS OF ST. MICHAELS
BALANCE SHEET
GOVERNMENTAL FUND
JUNE 30, 2012**

EXHIBIT C

**General
Fund**

ASSETS

Cash	\$ 183,705
Accounts Receivable	224,329
Investments	<u>9,862,301</u>
Total Assets	<u>\$ 10,270,335</u>

LIABILITIES AND FUND BALANCES

Liabilities:	
Accounts Payable	<u>\$ 105,035</u>
Fund Balance:	
Unassigned	1,988,977
Committed	<u>8,176,323</u>
Total Fund Balance	<u>10,165,300</u>
Total Liabilities and Fund Balance	<u>\$ 10,270,335</u>

Amounts Reported For Governmental Activities in The Statement of Net Assets Are Different Because:

Total Fund Balance	\$ 10,165,300
Note Receivable-Block Grant is a long term asset	375,130
Note Receivable-Choptank Electric is a long term asset	1,780,729
Capital assets, and related accumulated depreciation, used in governmental activities are not financial resources and therefore are not reported in the governmental funds balance sheet.	<u>8,748,885</u>
Net Assets of Governmental Activities	<u>\$ 21,070,044</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

COMMISSIONERS OF ST. MICHAELS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND
FOR THE YEAR ENDED JUNE 30, 2012

EXHIBIT D

**General
Fund**

Revenues:	
Taxes	\$ 2,131,057
Revenue from Other Agencies	311,281
Licenses and Permits	24,145
Rental/Franchise Revenue	225,692
Fines	3,970
Service Charges	32,892
Interest Income	94,252
Miscellaneous	83,523
Total Revenues	<u>2,906,812</u>
Expenditures:	
Current:	
General Government	834,035
Police	804,966
Public Works	514,487
Capital Outlay	164,551
Total Expenditures	<u>2,318,039</u>
Excess (Deficiency) of Revenues over Expenditures	<u>588,773</u>
Other Financing Sources (Uses):	
Operating Transfers In/(Out)	2,160
Principal Proceeds from Choptank Note	316,126
Total Other Financing Sources (Uses)	<u>318,286</u>
Net Change in Fund Balance	907,059
Fund Balances at Beginning of Year	<u>9,258,241</u>
Fund Balances at End of Year	<u><u>\$ 10,165,300</u></u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

**COMMISSIONERS OF ST. MICHAELS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE OF THE GOVERNMENTAL FUND TO THE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012**

EXHIBIT E

Net Change in Fund Balance-Total Governmental Funds	\$ 907,059
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlay and construction in progress as expenditures. However, in the government-wide statement of activities and changes in net assets, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital assets recorded in the current period.	154,664
Governmental funds report proceeds from the Choptank note receivable as income when received. However the government-wide statement of activities reported the entire gain in 2007, the year of sale.	(316,126)
Depreciation expense on capital assets is reported in the government-wide statement of activities and changes in net assets, but it does not require the use of current financial resources. Therefore, depreciation expense is not reported as an expenditure in governmental funds.	(242,277)
Change in Net Assets of Governmental Activities	\$ 503,320

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

COMMISSIONERS OF ST. MICHAELS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2012

EXHIBIT F

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Favorable (Unfavorable) Variance</u>	<u>Prior Year 6/30/11</u>
	<u>Original</u>	<u>Final</u>			
Revenues:					
Taxes	\$ 1,977,615	\$ 2,067,567	\$ 2,131,057	\$ 63,490	\$ 2,361,780
Revenue from Other Agencies	160,220	290,220	311,281	21,061	333,818
Licenses and Permits	20,350	20,350	24,145	3,795	27,371
Rental/Franchise Revenue	217,066	217,066	225,692	8,626	206,780
Fines	2,000	2,000	3,970	1,970	1,380
Service Charges	7,800	7,800	32,892	25,092	9,374
Interest Income	101,195	90,874	94,252	3,378	119,708
Miscellaneous	18,450	18,450	83,523	65,073	94,720
Total Revenues	<u>2,504,696</u>	<u>2,714,327</u>	<u>2,906,812</u>	<u>192,485</u>	<u>3,154,931</u>
Expenditures:					
Current:					
General Government	774,054	983,800	834,035	149,765	1,114,190
Police	867,348	867,348	804,966	62,382	807,139
Public Works	557,070	557,070	514,487	42,583	479,818
Capital Outlay	1,301,235	236,235	164,551	71,684	906,710
Debt Service:					
Principal Retirement	-	-	-	-	4,783,325
Interest	-	-	-	-	232,259
Total Expenditures	<u>3,499,707</u>	<u>2,644,453</u>	<u>2,318,039</u>	<u>326,414</u>	<u>8,323,441</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(995,011)</u>	<u>69,874</u>	<u>588,773</u>	<u>518,899</u>	<u>(5,168,510)</u>
Other Financing Sources (Uses):					
Operating Transfers In/(Out)	2,160	2,160	2,160	-	1,847
Principal Proceeds from Choptank Note	316,126	316,126	316,126	-	303,967
Prior Year Reserves	678,885	(386,000)	-	386,000	-
Total Other Financing Sources (Uses)	<u>997,171</u>	<u>(67,714)</u>	<u>318,286</u>	<u>386,000</u>	<u>305,814</u>
Net Change in Fund Balance	2,160	2,160	907,059	904,899	(4,862,696)
Fund Balances at Beginning of Year	<u>9,258,241</u>	<u>9,258,241</u>	<u>9,258,241</u>	<u>-</u>	<u>14,120,937</u>
Fund Balances at End of Year	<u>\$ 9,260,401</u>	<u>\$ 9,260,401</u>	<u>\$ 10,165,300</u>	<u>\$ 904,899</u>	<u>\$ 9,258,241</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

COMMISSIONERS OF ST. MICHAELS
BALANCE SHEET-ENTERPRISE FUNDS
JUNE 30, 2012

EXHIBIT G

ASSETS	Water Fund
Current Assets:	
Accounts Receivable	\$ 156,982
Investments	34,855
Total Current Assets	<u>191,837</u>
Capital Assets:	
Equipment	948,051
Improvements	3,133,081
Vehicles	78,206
Accumulated Depreciation	(995,257)
Total Capital Assets	<u>3,164,081</u>
Total Assets	<u><u>\$ 3,355,918</u></u>
 LIABILITIES	
Current Liabilities:	
Accounts Payable	\$ 15,881
Current Portion of Long Term Debt	94,578
Total Current Liabilities	<u>110,459</u>
Non-Current Liabilities:	
Long Term Debt-Net of Current Portion	1,720,217
Total Non-current Liabilities	<u>1,720,217</u>
Total Liabilities	<u>1,830,676</u>
 NET ASSETS	
Invested in Capital Assets, Net of Related Debt	1,349,286
Restricted	34,855
Unrestricted	141,101
Total Net Assets	<u>1,525,242</u>
Total Liabilities and Net Assets	<u><u>\$ 3,355,918</u></u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

COMMISSIONERS OF ST. MICHAELS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND NET ASSETS
ENTERPRISE FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

EXHIBIT H

Operating Revenues:	
Charges for Services	\$ 547,163
Connection Charges	4,400
Capital Charges	2,200
Total Revenues	<u>553,763</u>
Operating Expenses:	
Salaries	203,328
Overtime	4,991
Administrative Salary Charge	41,686
Supplies	692
Computer/Telemetry Software	4,423
Postage	1,444
Electric	21,400
Testing	7,147
Travel and Training	135
Insurance	3,590
Dues and Subscriptions	300
Telephone	1,232
Miscellaneous	288
Maintenance of Generator #2	2,306
Water Reimbursable - Theo's	8,306
Server Time - Mission Units	2,254
Water Tank Inspections	2,500
Vehicle Expense	1,757
Materials and Supplies	26,031
Uniforms	5,331
Audit	1,600
Arsenic System Maintenance	33,858
Depreciation	111,877
Arsenic Removal Administrative Fee	2,088
Arsenic Removal Interest	4,341
USDA Loan Interest	30,911
Water Tower Interest	<u>13,940</u>
Total Operating Expenses	<u>537,756</u>
Net Operating Income/(Loss)	16,007
Interest Income	<u>36</u>
Income/(Loss) Before Transfers	16,043
Transfers	<u>(2,160)</u>
Change in Net Assets	13,883
Net Assets at Beginning of Year	<u>1,511,359</u>
Net Assets at End of Year	<u>\$ 1,525,242</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

COMMISSIONERS OF ST. MICHAELS
STATEMENT OF CASH FLOWS
ENTERPRISE FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

EXHIBIT I

Cash Flows from Operating Activities:	
Cash Received from Customers	\$ 537,261
Connection Charges	4,400
Capital Charges	2,200
Cash Payments for Interest	(49,192)
Cash Payments to Employees for Services	(250,005)
Cash Payments to Suppliers for Goods and Services	(150,703)
Net Cash from Operating Activities	<u>93,961</u>
Cash Flows from Non-Capital Financing Activities:	
Transfers-General Fund	(2,160)
Net Cash from Non-Capital and Related Financing Activities	<u>(2,160)</u>
Cash Flows from Capital and Related Financing Activities:	
Retirement of Debt	(91,801)
Net Cash from Capital and Related Financing Activities	<u>(91,801)</u>
Net Increase (Decrease) in Cash	-
Cash - Beginning of year	-
Cash - End of year	<u>\$ -</u>
Reconciliation of Operating Income/(Loss) to Net Cash from Operating Activities:	
Operating Income/(Loss)	\$ 16,007
Adjustments to Reconcile Income/(Loss) to Net Cash from Operating Activities:	
Depreciation	111,877
Change in Accounts Receivable	(9,902)
Change in Deferred Revenue	(18,910)
Change in Accounts Payable	<u>(5,111)</u>
Net Cash from Operating Activities	<u>\$ 93,961</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

**COMMISSIONERS OF ST. MICHAELS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

**EXHIBIT J
PAGE 1**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. General Statement

The Town of St. Michaels is located on the Eastern Shore of Maryland and has a population of approximately 1,200 people. Some of the major services provided by the Town include water, parks and recreation, planning and zoning, improvements, and public safety.

The accounting and reporting policies of the Town relating to the funds included in the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled Audits of State and Local Governmental Units and by the Financial Accounting Standards Board (when applicable).

The more significant accounting policies of the Town are described below.

B. Financial Reporting Entity

The Town's basic financial statements include the accounts of all Town operations. The criteria for including organizations as component units within the Town's reporting entity is set forth in Section 2100 of GASB's Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 61.

Based on this criteria, the Town of St. Michaels has no component units.

C. Basis of Presentation

The Town's basic financial statements include both government-wide (reporting the Town as a whole) and fund financial statements (reporting the Town's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business type.

Government-wide Financial Statements:

The statement of net assets and the statement of activities report information on all of the activities of the Town. Governmental activities are normally supported by taxes and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given program and 2) operating or capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Taxes and other items not properly included among program revenues are reported instead as general revenues.

**COMMISSIONERS OF ST. MICHAELS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

**EXHIBIT J
PAGE 2**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Fund Financial Statements:

The Town segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Separate statements would normally be presented for governmental and proprietary activities. These statements present each major fund as a separate column on the fund financial statements. A fund is considered major if it is the primary operating fund of the Town or meets the following criteria:

- a. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- b. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

Governmental funds are those funds through which most governmental functions typically are financed. The measurement focus of governmental funds is on the sources, uses and balance of current financial resources.

The Town has presented the following major funds:

General Fund

The General Fund is the primary operating fund of the Town. This fund is used to account for all financial resources not accounted for in other funds. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges and capital improvement costs that are not paid through other funds are paid from the General Fund.

Water Fund

The Water Fund is used to account for the provision of water services to the residents of the Town. Activities of the fund include administration, operations and maintenance of the water system and billing and collection activities. The fund also accounts for the accumulation of resources for, and the payment of, long-term debt principal, interest and related costs for water debt. All costs are financed through charges to utility customers with rates reviewed regularly and adjusted if necessary to ensure integrity of the funds.

D. Measurement Focus/Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide statements and fund financial statements for proprietary funds are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized at the time the liability is incurred.

**COMMISSIONERS OF ST. MICHAELS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

**EXHIBIT J
PAGE 3**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Governmental fund financial statements are reported using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e., when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The Town considers Governmental Revenue as available if it is collected within 60 days after year end. Expenditures are recorded when the related fund liability is incurred.

The revenues susceptible to accrual are licenses, charges for services, and intergovernmental revenues. All other Governmental Fund revenues are recognized when received.

E. Budgetary Control

The Town Manager submits an annual budget to the Commissioners in accordance with the Town Charter. In June the Commissioners adopt the annual fiscal year appropriated budget for Town funds. These include General, Police, Public Works, Water, and Capital. Once approved, the Commissioners may amend the legally adopted budget when unexpected modifications are required in estimated revenues and appropriations.

Each fund's appropriated budget is prepared on a detailed line item basis. Revenues are budgeted by source. Expenditures are budgeted by department and class. This constitutes the legal level of control. Expenditures may not exceed appropriations at this level. All budget revisions at this level are subject to final review by the Commissioners. Within these control levels, management may transfer appropriations with Commissioners' approval.

The Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund presents a comparison of budgetary data to actual results. The General Fund is reported on the same basis of accounting for both budgetary purposes and actual results.

F. Cash and Investments

The Town follows the practice of segregating cash as to fund purpose or type. The types of investments allowed are governed by Maryland Statute. The Town considers all cash or investments with an initial maturity of three months or less to be cash. All deposits with financial institutions must be insured or collateralized by the pledging financial institution trust department.

Investments include repurchase agreements under PNC Investments' Local Government Investment Pool. Fair value is the same as par value: \$1 a share.

G. Accounts Receivable

Management of the Town considers all accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts has been provided. If amounts become uncollectible, they will be charged to operations in the period of uncollectibility.

COMMISSIONERS OF ST. MICHAELS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012

EXHIBIT J
PAGE 4

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

H. Property Taxes

Property taxes are billed each July 1 for the fiscal year. Full payment is due by December 31. January 1 is the delinquent date and the levy date is June 1. Liens are placed on properties on June 15.

I. Transactions Between Funds

Legally authorized transfers are treated as inter-fund transfers and are included in the results of operations of the funds.

J. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the applicable column in the government-wide financial statements. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized.

Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Buildings	20-50 Years
Equipment	5-20 Years
Vehicles	5-10 Years
Streets	30 Years
Water Department Assets	3-40 Years

In accordance with Accounting Standards Codification (ASC), No. 360, "Accounting for the Impairment or Disposal of Long-Lived Assets", management reviews property for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recovered. If the fair value is less than the carrying amount of the asset, an impairment loss is recognized for the difference. No impairment losses have been recognized during the year presented.

K. Net Assets

Net Assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Town or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

L. Use of Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America, requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

**COMMISSIONERS OF ST. MICHAELS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

**EXHIBIT J
PAGE 5**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

M. Fund Balance Classification:

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the Town is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- **Non-spendable:** This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. The Town currently has no non-spendable fund balance.
- **Restricted:** This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.
- **Committed:** This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Commissioners. These amounts cannot be used for any other purpose unless the Commissioners remove or change the specified use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements.
- **Assigned:** This classification includes amounts that are constrained by the Town's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Commissioners or through the Commissioners delegating this responsibility to the Town manager through the budgetary process. This classification also includes the remaining positive fund balance for all governmental funds except for the General Fund. The Town currently has no assigned fund balance.
- **Unassigned:** This classification includes the residual fund balance for the General Fund and the amount established for Minimum Funding, if any. The Unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of Assigned fund balance amounts.

The Town would typically use Restricted fund balances first, followed by Committed resources, and then Assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend Unassigned resources first to defer the use of these other classified funds.

N. Subsequent Events:

Events and transactions subsequent to year end have been evaluated for potential recognition in the financial statements or disclosure in the notes to the financial statements. All events and transactions have been evaluated through October 19, 2012, the date the report was available for issuance.

COMMISSIONERS OF ST. MICHAELS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012

EXHIBIT J
PAGE 6

NOTE 2 – CASH AND INVESTMENTS:

The following is a detail of cash and investments:

<u>Cash on Hand</u>		\$	75
<u>PNC Bank (Balances per bank):</u>			
General Fund Checking	\$ 139,218		
General Fund Payroll	36,383		
Parking Lot	25,028		
Muskrat Park	2,040		
Murray Shoreline	4,930		
SMPD-SMYLE	11,046		
<u>Total PNC Bank</u>			218,645
<u>Maryland Local Government Investment Pool (MLGIP)</u>			9,897,156
<u>TOTAL CASH AND INVESTMENTS</u>		\$	10,115,876

The balance of cash is categorized as follows:

Amount insured by the FDIC, or collateralized with securities.	\$	218,645
Uninsured and Uncollateralized		-
<u>TOTAL CASH</u>	\$	218,645

Investments owned by the various funds of the Town are as follows:

<u>DESCRIPTION</u>	<u>INTEREST RATES</u>	<u>PAR VALUE</u>	<u>COST</u>	<u>MARKET VALUE</u>	<u>RECOGNIZED GAIN (LOSS)</u>
<u>GENERAL FUND</u>					
<u>MLGIP</u>					
Unrestricted	Various	\$ 1,685,978	\$ 1,685,978	\$ 1,685,978	\$ -
Committed	Various	8,176,323	8,176,323	8,176,323	-
<u>ENTERPRISE FUND</u>					
<u>MLGIP</u>					
Restricted	Various	34,855	34,855	34,855	-
<u>TOTAL ALL FUNDS</u>		\$ 9,897,156	\$ 9,897,156	\$ 9,897,156	\$ -

The Maryland Local Government Investment Pool (MLGIP) provides all local government units of the State an investment vehicle for the short term investment of funds. The State Legislature created the Maryland Local Government Investment Pool with the passage of Article 95 22G, of the Annotated Code of Maryland. The Pool's purpose is to assist the public finance officer by providing an investment medium in which the participants may invest their idle balances. A pooled fund strategy is utilized creating a money market fund that provides professional money management, a well diversified portfolio and reduced cost.

The MLGIP is rated "AAAm" by Standard and Poor's (their highest rating). The MLGIP, under the Administrative control of the State Treasurer, is managed by PNC Institutional Investments. A MLGIP Advisory Committee of current participants reviews, on a semi-annual basis, the activities of the Fund. The Fund's financial information is available via the internet at www.mlgip.com.

**COMMISSIONERS OF ST. MICHAELS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

**EXHIBIT J
PAGE 7**

NOTE 2 – CASH AND INVESTMENTS (CONTINUED):

Investments – The Pool may invest in any instrument in which the State Treasurer may invest. Permissible instruments are established by section 6-222 of the State Finance and Procurement Article. This includes: an obligation for which the United States has pledged its faith and credit for the payment of principal and interest; an obligation that a federal agency or federal instrumentality has issued; a repurchase agreement collateralized in an amount not less than 102% of the principal amount by an obligation of the United States, its agencies or instrumentalities; bankers acceptances guaranteed by a financial institution with a short-term debt rating in the highest letter rating by at least one nationally recognized statistical rating organization (NRSRO) as designated by either the United States Securities and Exchange Commission (SEC) or the State Treasurer; Commercial Paper that has received the highest letter rating by at least one NRSRO as designated by the SEC; and money market mutual funds that are registered with the SEC under the Investment Company Act of 1940, as amended, and are operated in accordance with Rule 2a-7 of the Investment Company Act of 1940, as amended. No direct investment may have a maturity date of more than 13 months after its acquisition. However, floating rate notes are permitted with a minimum semi-annual reset and two year final maturity.

Repurchase Agreements – The Pool may agree to purchase portfolio securities from financial institutions, such as banks and broker-dealers, subject to the seller's agreement to repurchase them at an agreed upon date and price. The seller will be required on a daily basis, to maintain collateral in the form of an obligation of the United States, its agencies or instrumentalities on behalf of the Pool equal to 102% of market value of securities subject to resale. The agreement is conditioned upon the collateral being deposited under the Federal Reserve book-entry system. Such agreements, which are fully collateralized at year-end, are stated separately in the Pool's schedule of investments. In the event of a bankruptcy or default of certain sellers or repurchase agreements, the Pool could experience costs and delays in liquidating the underlying security, which is held as collateral, and the Pool might incur a loss if the value of the collateral held declines during this period.

NOTE 3 – RECEIVABLES:

The following is a list, by type of charge, of outstanding receivables:

Water Rents	\$ 156,982
Public Accommodations Tax	138,585
Parking Spaces	211,600
Chestnut Street Sidewalks	668
Cherry Street Sidewalks	2,774
Highway Users Taxes	4,653
Admissions and Amusements	10,213
Taxes	7,900
Housing Authority P.I.L.O.T.	20,247
Franchise Fee	1,022
Traders Licenses	88
Other Miscellaneous Receivables	30,529
Boat Slips	150
<u>TOTAL</u>	<u>\$ 585,411</u>

NOTE 4 - NOTE RECEIVABLE CHOPTANK ELECTRIC COOPERATIVE:

In 2008 the Town of St. Michaels sold their electric distribution system to Choptank Electric Cooperative, Inc. for \$11,444,358. Choptank Electric Cooperative paid \$8,200,000 in cash and will pay the remaining \$3,244,358 over the next 10 years in annual installments of \$400,000, including imputed interest at 4%.

COMMISSIONERS OF ST. MICHAELS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012

EXHIBIT J
PAGE 8

NOTE 5 – NOTE RECEIVABLE BLOCK GRANT:

The Town of St. Michaels received a grant from the United States Department of Housing and Urban Development, Community Development Block Grant Program. On April 9, 1985, the Town resolved to loan \$375,130 to a developer to convert an old school into badly needed rental units for the low and moderate income elderly. The developer received this money on August 8, 1985. The terms of the loan call for the developer to repay the loan at the end of 25 years with 0% interest. The Town holds a second mortgage on the property in case the developer defaults on the loan. Any future use of these funds is restricted to similar projects. The note was due and payable in August of 2010, but the borrower failed to meet the repayment requirement. As of June 30, 2012, legal action is on hold as the developer is in negotiations to sell the property.

NOTE 6 – CAPITAL ASSETS:

Following is a summary of Capital Asset changes for the current year:

ASSETS

	BALANCE JULY 1, 2011	ACQUISITIONS	RETIREMENTS	BALANCE JUNE 30, 2012
Land and Improvements	\$ 2,090,532	\$ -	\$ -	\$ 2,090,532
Buildings	1,286,733	-	-	1,286,733
Equipment	411,746	20,548	-	432,294
Improvements	5,968,649	134,116	-	6,102,765
Vehicles	349,029	-	-	349,029
Water	4,159,338	-	-	4,159,338
<u>TOTAL</u>	<u>\$ 14,266,027</u>	<u>\$ 154,664</u>	<u>\$ -</u>	<u>\$ 14,420,691</u>

ACCUMULATED DEPRECIATION

	BALANCE JULY 1, 2011	DEPRECIATION	RETIREMENTS	BALANCE JUNE 30, 2012
Land and Improvements	\$ 51,687	\$ 15,701	\$ -	\$ 67,388
Buildings	261,362	32,217	-	293,579
Equipment	287,589	22,984	-	310,573
Improvements	370,541	168,335	-	538,876
Vehicles	299,012	3,040	-	302,052
Water	883,380	111,877	-	995,257
<u>TOTAL</u>	<u>\$ 2,153,571</u>	<u>\$ 354,154</u>	<u>\$ -</u>	<u>\$ 2,507,725</u>
<u>CAPITAL ASSETS</u>				<u>\$ 11,912,966</u>

COMMISSIONERS OF ST. MICHAELS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012

EXHIBIT J
PAGE 9

NOTE 6 - CAPITAL ASSETS (CONTINUED):

Depreciation expense was charged as direct expense to programs of the primary government as follows:

Governmental Activities:	
General Government	\$ 12,622
Police	32,480
Public Works	197,175
Water Fund	111,877
Total Depreciation Expense	<u>\$ 354,154</u>

Capital outlay in the general fund expenditures is \$164,551. This amount exceeds the current additions to capital assets by \$9,887 because there are amounts in the expenditures which did not meet the Town's capitalization policy.

NOTE 7 - DEBT:

Debt consists of the following:

Bonds payable to Rural Development in the amount of \$1,287,000. Paid in semi-annual installments of \$37,525, including interest of 5% through September 2022 (Water system upgrade).	\$ 584,984
Bonds payable to Maryland Community Development Administration (CDA) in the amount of \$342,484. Paid in semi-annual installments of \$11,874 including interest of 5.625% through May 2027 (Water tower construction).	236,870
Note payable to Maryland Department of Environment. Payable in semi-annual installments of \$43,907 including interest of .4% and an administrative fee of 5% of debt service payments. Total loan amount was \$1,179,000. Due Date February 1, 2037 (Arsenic treatment compliance).	<u>992,941</u>
<u>TOTAL DEBT</u>	<u>1,814,795</u>
Less: Current Portion	<u>(94,578)</u>
<u>TOTAL LONG-TERM DEBT</u>	<u>\$ 1,720,217</u>

COMMISSIONERS OF ST. MICHAELS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012

EXHIBIT J
PAGE 10

NOTE 7 – DEBT (CONTINUED):

Maturities of Debt subsequent to year end, are as follows:

	<u>GOVERNMENTAL</u>		<u>ENTERPRISE</u>	
	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>
2013	\$ -	\$ -	\$ 94,578	\$ 46,037
2014	-	-	97,676	42,939
2015	-	-	100,929	39,686
2016	-	-	104,343	36,272
2017	-	-	107,929	32,686
2018-2022	-	-	600,051	103,022
2023-2027	-	-	300,183	27,640
2028-2032	-	-	202,511	6,569
2033-2037	-	-	206,595	2,485
<u>TOTAL</u>	\$ -	\$ -	\$ 1,814,795	\$ 337,336

Below summarizes the changes in Debt:

	<u>BALANCE</u> <u>7/1/11</u>	<u>ADDITIONS</u>	<u>RETIREMENTS</u>	<u>BALANCE</u> <u>6/30/12</u>
USDA	\$ 629,123	\$ -	\$ (44,139)	\$ 584,984
Maryland CDA	246,839	-	(9,969)	236,870
Arsenic Removal	1,030,634	-	(37,693)	992,941
<u>TOTAL</u>	\$ 1,906,596	\$ -	\$ (91,801)	\$ 1,814,795

NOTE 8 – RESTRICTIONS ON NET ASSETS:

Restricted net assets are available for the following purposes:

	<u>GENERAL</u>	<u>ENTERPRISE</u>
Capital Projects	\$ 9,957,052	\$ -
Note Receivable-Block Grant-Housing	375,130	-
Water Improvements	-	34,855
<u>TOTAL</u>	\$ 10,332,182	\$ 34,855

NOTE 9 – RISK AND INSURANCE COVERAGE:

The Town has exposure to various kinds of risk. As a vehicle to reduce this exposure the Town has purchased insurance policies from commercial insurance agents and entered into agreements with The Maryland Local Government Insurance Trust and The Injured Workers' Insurance Fund.

The insurance policies from commercial agents cover bonding for employees and The Commissioners.

The Maryland Local Government Insurance Trust covers general liability, public officials' legal liability for errors and omissions, police legal liability for wrongful acts and automobile liability and damage claims.

**COMMISSIONERS OF ST. MICHAELS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

**EXHIBIT J
PAGE 11**

NOTE 9 – RISK AND INSURANCE COVERAGE (CONTINUED):

The Injured Workers' Insurance Fund covers workman's compensation claims.

The Maryland Local Government Insurance Trust and the Insured Workers' Insurance Fund are risk pools to which the Town pays a premium for selected types and amounts of insurance coverage. These two pools provide policies with retrospectively rated premiums. Premiums are accrued (paid) based on the ultimate cost of the experience to date of a group of entities.

NOTE 10 – PENSION PLAN:

Plan Description—The Town's employees participate in the State Retirement and Pension System of Maryland (SRPSM), a defined benefit pension plan which provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. This is an agent multiple-employer pension plan. The plan is administered in accordance with the State Personnel and Pensions Article of the Annotated Code of Maryland. The Commissioners of St. Michaels assign the authority to establish and amend the benefit provisions of the plans that participate in the SRPSM to the Board of Trustees of the SRPSM. The State of Maryland issues a publicly available financial report that includes financial statements and required supplementary information for the SRPSM. The report may be obtained by writing to the State Retirement and Pension System of Maryland, 301 West Preston Street, Baltimore, MD 21201, or via the internet at www.sra.state.md.us.

Funding Policy—Members are required to contribute 5% (7% in 2012) of the portion of their salary above the federal social security wage base for the year. The Town is required to contribute at an actuarially determined rate. The contribution requirements of plan members and the Town are established and may be amended by the SRPSM Board of Trustees.

Annual Pension Cost—The Town's annual pension cost of \$134,902 was equal to the Town's required and actual contributions. The required contribution was determined as part of the June 30, 2011 actuarial valuation using the aggregate entry age normal method. The actuarial assumptions included (a) 7.75% investment rate of return, (b) projected salary increases ranging from 3.5% to 8.5% per year, and (c) 3% simple per year cost-of-living adjustments. Both (a) and (b) are adjusted for inflation. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments from year to year.

During the current fiscal year the Commissioners decided to pay the actuarially determined liability to fully fund the active assets attributable to active members. The amount of this payment was \$212,654, which is included in current year benefits expense.

NOTE 11 – DEFERRED REVENUE:

Included in deferred revenue are amounts for the purchase of parking spaces by Town businesses in the amount of \$204,100. These amounts will be recognized in future periods as they become available for payment of current expenditures.

COMMISSIONERS OF ST. MICHAELS

SUPPLEMENTAL INFORMATION

JUNE 30, 2012

**COMMISSIONERS OF ST. MICHAELS
SUPPLEMENTAL INFORMATION
ANALYSIS OF REVENUE-BUDGET AND ACTUAL
ALL FUND TYPES
YEAR ENDED JUNE 30, 2012**

**SCHEDULE A
PAGE 1**

	2012				
	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Favorable</u>	<u>Prior Year</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>(Unfavorable)</u>	<u>6/30/11</u>
				<u>Variance</u>	
<u>TAXES-LOCAL:</u>					
<u>Real and Personal Property:</u>					
Real Estate Taxes	\$ 1,443,085	\$ 1,519,037	\$ 1,523,107	\$ 4,070	\$ 1,836,302
Personal Property and Corporation	60,677	60,677	62,850	2,173	67,603
Utilities	30,000	44,000	44,572	572	44,676
<u>Total Real and Personal Property</u>	1,533,762	1,623,714	1,630,529	6,815	1,948,581
<u>Admissions & Amusements</u>	50,000	50,000	54,587	4,587	53,261
<u>Public Accommodations</u>	390,000	390,000	434,279	44,279	416,730
<u>Taxes-State Shared:</u>					
Franchise Tax	1,123	1,123	1,123	-	1,123
Highway User	20,730	20,730	20,767	37	7,038
<u>Total Taxes</u>	1,995,615	2,085,567	2,141,285	55,718	2,426,733
<u>Less: Discounts and Allowances</u>	(18,000)	(18,000)	(10,228)	7,772	(64,953)
<u>NET TAXES</u>	1,977,615	2,067,567	2,131,057	63,490	2,361,780
<u>REVENUE FROM OTHER AGENCIES:</u>					
<u>Federal Government:</u>					
Department of The Interior	1,673	1,673	1,769	96	1,742
FEMA Grant	-	-	8,730	8,730	6,242
<u>State Government:</u>					
Police Protection State	23,062	23,062	18,388	(4,674)	18,388
Critical Area Grant	4,000	4,000	4,000	-	4,000
Waterway Improvement Grant	-	-	-	-	72,313
Nature Trail Grant-State	-	-	-	-	101,497
Income Tax	110,000	240,000	266,519	26,519	117,761
<u>County Government:</u>					
Crossing Guard	11,875	11,875	11,875	-	11,875
<u>Other Agencies:</u>					
St. Michaels Housing Authority PILOT	9,610	9,610	-	(9,610)	-
<u>TOTAL REVENUE FROM OTHER AGENCIES</u>	160,220	290,220	311,281	21,061	333,818
<u>LICENSES AND PERMITS:</u>					
Traders Licenses	6,000	6,000	8,343	2,343	9,282
Animal Licenses	50	50	148	98	46
Building Permits	10,000	10,000	9,161	(839)	8,891
HDC Permits	3,000	3,000	2,550	(450)	2,850
Board of Appeals	1,000	1,000	2,493	1,493	3,627
Other Licenses & Permits	300	300	1,450	1,150	2,675
<u>TOTAL LICENSES AND PERMITS</u>	20,350	20,350	24,145	3,795	27,371

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

**COMMISSIONERS OF ST. MICHAELS
SUPPLEMENTAL INFORMATION
ANALYSIS OF REVENUE-BUDGET AND ACTUAL
ALL FUND TYPES
YEAR ENDED JUNE 30, 2012**

**SCHEDULE A
PAGE 2**

	2012				
	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Favorable (Unfavorable) Variance</u>	<u>Prior Year 6/30/11</u>
	<u>Original</u>	<u>Budget Final</u>			
<u>RENTAL/FRANCHISE REVENUE:</u>					
Cable TV	\$ 12,500	\$ 12,500	\$ 15,377	\$ 2,877	\$ 15,225
Boat Slip Rentals	21,300	21,300	22,930	1,630	20,298
Building Rent	40,399	40,399	40,662	263	37,008
Tower Rent	142,867	142,867	146,723	3,856	134,249
<u>TOTAL RENTAL/FRANCHISE REVENUE</u>	<u>217,066</u>	<u>217,066</u>	<u>225,692</u>	<u>8,626</u>	<u>206,780</u>
<u>WATER CHARGES:</u>					
Water Service Charges	540,000	540,000	547,163	7,163	531,642
Water Connections	10,000	10,000	4,400	(5,600)	29,280
Water Capital Charges	1,000	1,000	2,200	1,200	4,400
<u>TOTAL WATER CHARGES</u>	<u>551,000</u>	<u>551,000</u>	<u>553,763</u>	<u>2,763</u>	<u>565,322</u>
<u>FINES:</u>					
Parking & Civil Violations	2,000	2,000	3,970	1,970	1,380
<u>SERVICE CHARGES:</u>					
Copy Machine	500	500	892	392	210
Parking Spaces	-	-	26,900	26,900	-
Tree Mitigation Funds	6,000	6,000	2,700	(3,300)	3,584
Weed Removal	800	800	-	(800)	-
Health Officer Charges	-	-	2,400	2,400	5,580
Other Service Charges	500	500	-	(500)	-
<u>TOTAL SERVICE CHARGES</u>	<u>7,800</u>	<u>7,800</u>	<u>32,892</u>	<u>25,092</u>	<u>9,374</u>
<u>MISCELLANEOUS REVENUE:</u>					
Interest	101,230	90,909	94,288	3,379	119,753
Other Miscellaneous Revenue	18,450	18,450	83,523	65,073	94,720
Proceeds from Sale of St. Michael's Utility Commission	316,126	316,126	316,126	-	303,967
<u>TOTAL MISCELLANEOUS REVENUE</u>	<u>435,806</u>	<u>425,485</u>	<u>493,937</u>	<u>68,452</u>	<u>518,440</u>
<u>TOTAL REVENUE</u>	<u>\$ 3,371,857</u>	<u>3,581,488</u>	<u>\$ 3,776,737</u>	<u>\$ 195,249</u>	<u>\$ 4,024,265</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

COMMISSIONERS OF ST. MICHAELS
SUPPLEMENTAL INFORMATION
ANALYSIS OF EXPENDITURES/EXPENSES-BUDGET AND ACTUAL
ALL FUND TYPES
YEAR ENDED JUNE 30, 2012

SCHEDULE B
PAGE 1

	2012				
	Budgeted Amounts			Favorable (Unfavorable) Variance	Prior Year 6/30/11
	Original	Final	Actual Amounts		
GOVERNMENTAL FUNDS					
GENERAL GOVERNMENT:					
Legislative:					
Commissioner's Salaries & Benefits	\$ 16,946	\$ 16,946	\$ 16,392	\$ 554	\$ 17,156
Other Operating Expense	13,525	19,525	10,903	8,622	8,327
Miles Point Settlement and Related Costs					336,501
Executive:					
Staff Salaries & Benefits	223,263	427,009	337,811	89,198	181,302
Staff Salaries Overtime	1,000	1,000	3,035	(2,035)	183
Election Expense	2,000	2,000	995	1,005	
Office Expense	24,300	24,300	25,279	(979)	30,019
Codification - Maintenance	10,000	10,000	7,097	2,903	15,593
Janitorial	3,000	3,000	2,775	225	2,940
Travel and Training	1,250	1,250	1,700	(450)	1,485
Ads and Notices	7,300	7,300	6,279	1,021	5,301
Insurance	12,000	12,000	10,350	1,650	14,448
Dues and Subscriptions	4,800	4,800	3,862	938	4,947
Telephone	7,900	7,900	6,469	1,431	7,701
Miscellaneous	2,000	2,000	3,362	(1,362)	308
Audit	14,000	14,000	12,020	1,980	16,770
Legal	50,000	50,000	26,057	23,943	45,662
Engineering	5,000	5,000	3,261	1,739	1,377
Website Development	2,500	2,500	1,414	1,086	1,282
Newsletter	400	400		400	299
Holiday - Volunteer Acknowledgement	300	300		300	
Total Legislative and Executive	401,484	611,230	479,061	132,169	691,601
Planning & Zoning/Critical Areas:					
Advertising	7,000	7,000	3,117	3,883	4,882
Salaries & Benefits	127,933	127,933	110,035	17,898	126,816
Overtime	1,000	1,000	2,145	(1,145)	42
Administrative Salary Charge	41,686	41,686	41,686		43,206
Legal Services	15,000	15,000	8,785	6,215	53,552
Reimbursables			17,096	(17,096)	3,549
Office Expenses	3,500	3,500	3,473	27	3,608
Plan/Zoning Consulting	5,000	5,000	273	4,727	
Heatherington Harbor Annexation					10,144
Inspections	4,000	4,000	1,775	2,225	3,147
Total Planning & Zoning/Critical Areas	205,119	205,119	188,385	16,734	248,946
Other General Government:					
Tourism and Economic Development	101,548	101,548	100,686	862	114,780
Talbot County Arts Council					1,000
Talbot County Free Library	5,000	5,000	5,000	-	11,000
Fire Department Appropriation	47,903	47,903	47,903	-	48,028
St. Michaels Community Center	5,000	5,000	5,000	-	5,000
St. Mary's Square Museum	3,000	3,000	3,000	-	3,500
St. Michaels Art League				-	200
St. Michaels Fireworks	1,000	1,000	1,000	-	2,000
Bay Hundred Pool	4,000	4,000	4,000	-	5,000
SMHA - Gazebo				-	2,871
Total Other General Government	167,451	167,451	166,589	862	193,379
TOTAL GENERAL GOVERNMENT	774,054	983,800	834,035	149,765	1,133,926

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

COMMISSIONERS OF ST. MICHAELS
SUPPLEMENTAL INFORMATION
ANALYSIS OF EXPENDITURES/EXPENSES-BUDGET AND ACTUAL
ALL FUND TYPES
YEAR ENDED JUNE 30, 2012

SCHEDULE B
PAGE 2

2012					
	Budgeted Amounts		Actual Amounts	Favorable (Unfavorable) Variance	Prior Year 6/30/11
	Original	Final			
POLICE:					
Sworn Salaries & Benefits	\$ 682,026	\$ 682,026	\$ 632,201	\$ 49,825	\$ 634,292
Sworn Overtime	11,500	11,500	25,051	(13,551)	23,746
Other Salaries	66,136	66,136	33,586	32,550	40,773
Other Overtime	1,200	1,200	1,737	(537)	1,852
Administrative Salary Charges	41,686	41,686	41,686	-	39,606
Advertising (Personnel)	1,300	1,300	-	1,300	877
Office Supplies	3,000	3,000	6,453	(3,453)	4,284
Janitorial	2,500	2,500	2,688	(188)	2,579
Travel and Training	1,500	1,500	1,500	-	2,535
Insurance	13,000	13,000	9,523	3,477	9,569
Dues and Subscriptions	800	800	275	525	-
Communications	800	800	500	300	1,513
Telephone	7,000	7,000	7,218	(218)	7,748
Miscellaneous	1,200	1,200	1,240	(40)	945
Auto Expense	16,000	16,000	21,417	(5,417)	17,355
Utilities	5,600	5,600	6,338	(738)	5,218
Equipment and Supplies	4,000	4,000	1,880	2,120	5,887
Uniforms	3,500	3,500	2,064	1,436	2,856
Personnel Testing	500	500	379	121	466
SMYLE Expenses	1,000	1,000	7,572	(6,572)	3,438
Capital Outlay	39,000	23,000	48,928	(25,928)	4,846
Legal	1,500	1,500	58	1,442	-
Audit	1,600	1,600	1,600	-	1,600
TOTAL POLICE	906,348	890,348	853,894	36,454	811,985
PUBLIC WORKS:					
Maintenance and Grounds:					
Salaries & Benefits	215,504	215,504	203,372	12,132	217,952
Overtime	10,000	10,000	4,992	5,008	5,974
Administrative Salary Charge	41,686	41,686	41,686	-	43,206
Insurance	6,000	6,000	4,395	1,605	5,537
Telephone	800	800	3,196	(2,396)	3,133
Maintenance & Supplies	3,000	3,000	3,265	(265)	5,379
Miscellaneous	250	250	41	209	147
Uniforms	3,200	3,200	5,588	(2,388)	3,759
Tree Planting	8,000	8,000	9,611	(1,611)	6,317
Mosquito Control	1,300	1,300	2,979	(1,679)	1,217
Audit	2,030	2,030	2,030	-	2,030
Health Officer	200	200	165	35	3,350
Hurricane Irene	-	-	6,077	(6,077)	-
Personnel Testing	400	400	-	400	-
Total Maintenance and Grounds	292,370	292,370	287,397	4,973	298,001
Sanitation and Waste Removal:					
Vehicle Expense	15,400	15,400	11,923	3,477	8,325
Repairs and Maintenance	1,000	1,000	-	1,000	979
Recycling Service	51,100	51,100	52,428	(1,328)	6,479
Dump Fees	60,000	60,000	32,864	27,136	46,978
Total Sanitation and Waste Removal	127,500	127,500	97,215	30,285	62,761

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

**COMMISSIONERS OF ST. MICHAELS
SUPPLEMENTAL INFORMATION
ANALYSIS OF EXPENDITURES/EXPENSES-BUDGET AND ACTUAL
ALL FUND TYPES
YEAR ENDED JUNE 30, 2012**

**SCHEDULE B
PAGE 3**

2012					
	Budgeted Amounts		Actual Amounts	Favorable (Unfavorable) Variance	Prior Year 6/30/11
	Original	Final			
Streets:					
Street Lights	\$ 45,000	\$ 45,000	\$ 44,720	\$ 280	\$ 43,912
Parking Lots - Repairs and Maintenance	500	500	476	24	34
Snow and Ice Removal	1,000	1,000	-	1,000	1,124
Storm Drain - Repairs and Maintenance	4,000	4,000	2,032	1,968	1,111
Vehicle Expenses	12,000	12,000	10,991	1,009	9,590
Maintenance and Supplies	7,000	7,000	9,124	(2,124)	5,147
Sidewalks - Repairs and Maintenance	3,000	3,000	-	3,000	1,495
Signs	1,000	1,000	1,279	(279)	348
Capital Outlay - Streets	1,100,000	65,000	68,438	(3,438)	651,313
Capital Outlay - Parking Lots	30,000	106,000	6,887	99,113	1,665
Capital Outlay - Signs	4,000	4,000	3,000	1,000	-
Total Streets	1,207,500	248,500	146,947	101,553	715,739
Municipal Buildings:					
Utilities	17,000	17,000	11,495	5,505	16,301
Maintenance and Supplies	11,000	11,000	9,958	1,042	10,300
Property Tax	9,200	9,200	9,613	(413)	9,277
Capital Outlay	-	-	-	-	13,420
Total Municipal Buildings	37,200	37,200	31,066	6,134	49,298
Parks and Recreation:					
Vehicle Expenses	5,000	5,000	2,592	2,408	2,780
Maintenance and Supplies	16,000	16,000	15,725	275	15,309
Uniforms	1,600	1,600	2,593	(993)	1,880
Harbor Maintenance and Supplies	1,000	1,000	1,838	(838)	-
Capital Outlay - Parks	128,235	38,235	37,298	937	8,270
Capital Outlay - Harbor	-	-	-	-	145,369
Personnel Testing	400	400	-	400	-
Rails and Trails	2,500	2,500	7,439	(4,939)	62,091
Advisory Board	-	-	-	-	448
Total Parks and Recreation	154,735	64,735	67,485	(2,750)	236,147
TOTAL PUBLIC WORKS	1,819,305	770,305	630,110	140,195	1,361,946
DEBT SERVICE:					
Capital Projects	-	-	-	-	5,015,584
TOTAL DEBT SERVICE	-	-	-	-	5,015,584
TOTAL GOVERNMENTAL EXPENDITURES	3,499,707	2,644,453	2,318,039	326,414	8,323,441

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

COMMISSIONERS OF ST. MICHAELS
SUPPLEMENTAL INFORMATION
ANALYSIS OF EXPENDITURES/EXPENSES-BUDGET AND ACTUAL
ALL FUND TYPES
YEAR ENDED JUNE 30, 2012

SCHEDULE B
PAGE 4

	2012				
	Budgeted Amounts		Actual Amounts	Favorable (Unfavorable) Variance	Prior Year 6/30/11
	Original	Final			
ENTERPRISE FUNDS					
WATER FUND:					
Salaries & Benefits	\$ 222,504	\$ 222,504	\$ 203,328	\$ 19,176	\$ 226,056
Overtime			4,991	(4,991)	5,389
Administrative Salary Charge	41,686	41,686	41,686	-	43,206
Office Supplies	600	600	692	(92)	284
Computer/Telemetry Software	2,000	2,000	4,423	(2,423)	6,018
Postage	1,400	1,400	1,444	(44)	1,180
Electric	22,000	22,000	21,400	600	21,061
Testing	7,100	7,100	7,147	(47)	4,935
Travel and Training	2,000	2,000	135	1,865	264
Insurance	4,900	4,900	3,590	1,310	4,443
Dues and Subscriptions	250	250	300	(50)	250
Telephone	1,500	1,500	1,232	268	1,282
Miscellaneous	500	500	288	212	1,841
Maintenance of Generator #2	1,200	1,200	2,306	(1,106)	-
Water Reimbursable - Theo's			8,306	(8,306)	-
Server Time - Mission Units	2,300	2,300	2,254	46	-
Water Tank Inspections	10,000	10,000	2,500	7,500	-
Vehicle Expense	4,800	4,800	1,757	3,043	3,901
Materials and Supplies	25,000	25,000	26,031	(1,031)	37,452
Uniforms	3,800	3,800	5,331	(1,531)	3,759
Arsenic System Maintenance	4,500	20,000	33,858	(13,858)	5,744
Audit	1,600	1,600	1,600	-	1,600
Capital Outlay		20,739	-	20,739	69,692
Debt Service - Arsenic DOE	43,904	43,904	43,904	-	43,904
Debt Service - Water Bonds (FHA)	75,050	75,050	75,050	-	75,050
Debt Service - New Water Town	23,749	23,749	24,127	(378)	23,834
TOTAL WATER FUND	502,343	538,582	517,680	13,356	581,145
TOTAL EXPENDITURES/EXPENSES	\$ 4,002,050	\$ 3,183,035	\$ 2,835,719	\$ 339,770	\$ 8,904,586

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

**COMMISSIONERS OF ST. MICHAELS
SUPPLEMENTAL INFORMATION
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS-BUDGET AND ACTUAL
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2012**

SCHEDULE C

	<u>Budget</u>	<u>Actual Amounts</u>	<u>Favorable (Unfavorable) Variance</u>	<u>Prior Year 6/30/11</u>
<u>Operating Revenues:</u>				
Charges for Services	\$ 540,000	\$ 547,163	\$ 7,163	\$ 531,642
Connection Charges	10,000	4,400	(5,600)	29,280
Capital Charges	1,000	2,200	1,200	4,400
<u>Total Operating Revenues</u>	<u>551,000</u>	<u>553,763</u>	<u>2,763</u>	<u>565,322</u>
<u>Operating Expenses:</u>				
Salaries & Benefits	222,504	203,328	19,176	226,056
Overtime	-	4,991	(4,991)	5,389
Administrative Salary Charge	41,686	41,686	-	43,206
Supplies	600	692	(92)	284
Computer/Telemetry Software	2,000	4,423	(2,423)	6,018
Capital Outlay	20,739	-	20,739	69,692
Postage	1,400	1,444	(44)	1,180
Electric	22,000	21,400	600	21,061
Testing	7,100	7,147	(47)	4,935
Travel and Training	2,000	135	1,865	264
Insurance	4,900	3,590	1,310	4,443
Dues and Subscriptions	250	300	(50)	250
Telephone	1,500	1,232	268	1,282
Miscellaneous	500	288	212	1,841
Maintenance of Generator #2	1,200	2,306	(1,106)	-
Water Reimbursable - Theo's	-	8,306	(8,306)	-
Server Time - Mission Units	2,300	2,254	46	-
Water Tank Inspections	10,000	2,500	7,500	-
Vehicle Expense	4,800	1,757	3,043	3,901
Materials and Supplies	25,000	26,031	(1,031)	37,452
Uniforms	3,800	5,331	(1,531)	3,759
Audit	1,600	1,600	-	1,600
Arsenic System Maintenance	20,000	33,858	(13,858)	5,744
Depreciation	-	111,877	(111,877)	124,591
Arsenic Removal Administrative Fee	-	2,088	(2,088)	2,088
Arsenic Removal Interest	43,904	4,341	39,563	4,198
USDA Loan Interest	75,050	30,911	44,139	33,038
Water Tower Interest	23,749	13,940	9,809	14,737
<u>Total Operating Expenses</u>	<u>538,582</u>	<u>537,756</u>	<u>826</u>	<u>617,009</u>
<u>Net Operating Income</u>	<u>12,418</u>	<u>16,007</u>	<u>3,589</u>	<u>(51,687)</u>
<u>Non-operating Revenue (Expense)</u>				
Interest Income	35	36	1	45
<u>Income/(Loss) Before Transfers</u>	<u>12,453</u>	<u>16,043</u>	<u>3,590</u>	<u>(51,642)</u>
<u>Transfers/Prior Year Reserves</u>	<u>(14,613)</u>	<u>(2,160)</u>	<u>12,453</u>	<u>(1,847)</u>
<u>Change in Net Assets</u>	<u>(2,160)</u>	<u>13,883</u>	<u>16,043</u>	<u>(53,489)</u>
<u>Net Assets at Beginning of Year</u>	<u>1,511,359</u>	<u>1,511,359</u>	<u>-</u>	<u>1,564,848</u>
<u>Net Assets at End of Year</u>	<u>\$ 1,509,199</u>	<u>\$ 1,525,242</u>	<u>\$ 16,043</u>	<u>\$ 1,511,359</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS



Robert B. Lank, C.P.A.
Terrence Johnson, C.P.A.
Richard L. Tull, C.P.A.

Gary W. Tuttle, C.P.A.
John E. Cullen, Jr., C.P.A.
Robert B. Lank, Jr., C.P.A.

LANK, JOHNSON & TULL

Certified Public Accountants

P.O. Box 418 • 521 N. Market St. Ext. • Seaford, Delaware 19973
P.O. Box 253 • 268 Milford-Harrington Highway • Milford, Delaware 19963
1475 S. Governors Avenue • Dover, Delaware 19904

Seaford Office
(302) 629-9543
Fax (302) 629-3501

Milford Office
(302) 422-3308
Fax (302) 422-4782

Dover Office
(302) 736-2618
Fax (302) 736-5522

REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

TO THE COMMISSIONERS
TOWN OF ST. MICHAELS, MARYLAND

We have audited the financial statements of the Town of St. Michaels as of and for the year ended June 30, 2012, and have issued our report thereon dated October 19, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

Management of the Town of St. Michaels is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Town of St. Michaels' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements; but not for the purpose of expressing an opinion on the effectiveness of the Town of St. Michaels' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of St. Michaels's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Members

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS • PRIVATE COMPANIES PRACTICE SECTION
DELAWARE SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

This report is intended solely for the information and use of management, Town Commissioners, others within the entity, and federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Lank, Johnson & Tull

Seaford, Delaware
October 19, 2012